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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

1 June 1960

file *Memo to*
DDI

STAFF MEMORANDUM NO. 29-60

SUBJECT: Yugoslavia and the Non-U Countries

SUMMARY

A. Building upon continuing gains in political stability and economic growth, Yugoslavia has undertaken, especially since the new rift with the Bloc in 1958, a considerable expansion of its political and economic ties with "neutral" and underdeveloped countries. This long-range program aims to harness Yugoslavia's own economic development to the future economic growth of these countries, and is creating an additional vested interest in Belgrade's policy of non-alignment with blocs.

B. An important recent feature of the program is the extension of credits to these countries, repayable bilaterally in future deliveries of raw materials, for the purchase of Yugoslav

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industrial products, principally capital goods. These do not represent a rechanneling of Western aid, but rather an endeavor to obtain secure future markets and sources of raw materials for Yugoslavia's rapidly expanding industry.

C. From the point of view of the US, perhaps the most noteworthy development is the increasing appeal that Yugoslavia's precept and example have for a variety of underdeveloped countries. This springs primarily from Yugoslavia's success in remaining independent of both the US and the USSR, from a general feeling that the Yugoslavs have no expansionist designs, and from the interest which socialist-minded leaders in these countries have in Yugoslavia's political and economic system, which in recent years has developed a number of important variations from socialism as practiced in the Communist bloc.

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Introduction -- The General Outlook for Yugoslavia

1. A reexamination of the last NIE on Yugoslavia (NIE 31-57, 11 June 1957) indicates that the fundamental position taken then on Yugoslav events has held up quite well, even though three years have elapsed. Regime stability, if anything, has increased since 1957. Certain problems, it is true, such as a revival of regional quarrels, are likely to occur in the event of Tito's death, but these, we feel, are unlikely to prove insurmountable for the regime. We still believe that Yugoslavia will pursue an independent position and will keep its distance from the Sino-Soviet bloc. Although some leaders recently have shown concern as Communists, lest their country be drifting inevitably in a Western direction, there is no evidence of important elements in the party actively opposing the policy of non-alignment with blocs.

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2. Some developments have occurred since 1957, moreover, which make the prospect even less likely that Yugoslavia will return to the Soviet fold. In particular, by establishing political influence and long-range economic ties with the underdeveloped countries, the Yugoslavs are constructing bonds with these areas which will survive the passing of Tito. The more Yugoslavia develops these relations, the more it develops a vested interest in maintaining a non-bloc position, and the more difficult it will be for Tito's successor to reverse or abandon that position.

3. Whereas it was noted in the 1957 estimate that the Yugoslav economy had "chronic" difficulties, this seems no longer to be the case. By the end of 1959 the Yugoslavs were able to boast one of the highest rates of economic growth in the world and to announce that in view of the improvement in agricultural production, Yugoslavia would not have to import any more wheat after the end of 1960. A certain amount of credit for these astonishing successes since 1957 should go to certain heretical developments in the economy, such as the reversion of agriculture to a semi-private basis and the re-introduction of the free market principle. Needless to say, however, Western aid played a key role in these achievements, and

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it is also true that Western aid, though perhaps in a somewhat different form than in the past, will continue to be required in the future if Yugoslavia is to maintain its present rates of industrial growth.

The Yugoslav Program for the Underdeveloped Countries

4. The extensive development since 1957 in Yugoslav ties with the underdeveloped countries is, in part, a reflection of this growing economic strength. An outgrowth of Tito's extended efforts in recent years to cement bonds between a group of "neutralist" countries in order to increase the strength of their common voice in world affairs, the program has gradually grown to such proportions that the Yugoslavs now have established important political and economic connections with nations throughout the Afro-Asian sphere, the Middle East, and Latin America.* The most recent period of activity stems from the rift with the bloc which occurred

* The countries mainly involved are India, the UAR, Indonesia, Burma, Ceylon, Ethiopia, the Sudan, Lebanon, Argentina, Brazil and Cuba. Yugoslavia is also making a play to establish itself in the new African nations, and more broadly in Latin America.

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subsequent to the Moscow conference of Communist party leaders in November, 1957. Yugoslavia's basic policy position, as enunciated in its party program of April 1958, logically presupposed such an effort, since it criticized the "bloc" mentality and defended Yugoslavia's ties with countries outside both blocs.*

5. Much stress has been placed on the expansion of trade with these areas. The results so far remain negligible in proportion to total Yugoslav trade, but plans call for about one-fourth of total trade to be with the underdeveloped countries in five to ten years. Since mid-1958, moreover, an important feature of the Yugoslav program has been the extension of credits to these countries to finance the purchase of Yugoslav industrial products. By early 1960 these credits had totalled over \$128,000,000 in value, and official statements indicated that an additional \$160,000,000 worth of credits are to be extended by the end of 1962. These credits, it should be emphasized, are not simply a rechanneling of US economic

* Moscow's views on Yugoslavia's non-bloc position have been aired as recently as the latest issue of the Soviet periodical Kommunist. The article said that this position "only favors the interests of the imperialist bloc, which profits from it most of all... the Yugoslav leadership directly or indirectly supports the Western powers, and in the first place, the United States, on a number of international problems."

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aid. While there is an obvious political motive in establishing these ties, the credits are in the nature of export supplier credits, rather than an "aid" program as such. The Yugoslavs argue that, as their industry expands and diversifies, raw materials will be needed in greater amounts, as will markets for the products of Yugoslav industry. Previously such markets were found in Eastern Europe, but as a result of the Yugoslav experiences with the bloc after 1948, and as a result of rapidly expanding industrial production, the Yugoslavs have turned to places where long range prospects seemed more favorable from the political as well as the economic point of view. Western Europe did not seem a very good long range prospect, in view of the hazards of competition for these established markets, and the likelihood of restrictionism and protectionism in the two main regional economic groupings.

6. Most of the credits have been tied to Yugoslav deliveries of heavy industrial equipment -- mainly ships, power-generation equipment, and other products of heavy capital goods industries. Credit agreements have so far been signed with Argentina, Ceylon, Ethiopia, Indonesia, the UAR, the Sudan, and India. The terms have ranged from five to eight years (usually the latter) at 3 percent

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interest, with repayment to take place through bilateral clearing accounts. These are more favorable terms than those made in credits from the West to Yugoslavia though not as favorable as the terms of recent Developmental Loan Fund loans to Yugoslavia.

7. In addition to the extension of credits, Belgrade has established some kind of trade representation in most of these countries, has set up joint shipping and trading companies with some of them, and has established regular shipping services to all. The Yugoslavs have become involved, inter alia, in the construction and equipping of ports, the design and equipping of industrial plants, river control projects, and geological and geophysical surveys. In certain instances they have even competed with Western firms for contracts, offering terms which sometimes make it difficult for Western firms to compete. They have been especially active in the Sudan and Ethiopia, where, as advisers on economic development they have attained positions of considerable influence. In Ceylon, the Yugoslavs have important ties and influence with the Trotskyite Lanka Sama Samaja Party, which could be significant if the latter should become a participant in a future government of Ceylon. Cultural ties with these countries

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and exchanges of delegations have also been encouraged on a fairly large scale, and this year hundreds of students from the Afro-Asian area are studying in Yugoslavia.

Political Influence

8. Hand in hand with expanded ties goes, of course, a certain amount of proselytism on behalf of the Yugoslav political and economic system. Tito acknowledged this himself in an interview at the end of April, when he stated, "We, of course, are not offering or trying to impose our experience on anybody, but we are willing to enable anyone who shows interest to get acquainted with it and use anything that suits him." There is, indeed, some indication that Yugoslav economic ideas, especially on agricultural development, have found at least a sympathetic audience in India, the UAR, and Ethiopia. In Ethiopia and the Sudan, moreover, the Yugoslavs have insinuated themselves into positions whereby they are able to exert a strong influence on internal economic development.

9. One of the reasons the Yugoslavs are able to attain such influential positions quickly in newly independent or semi-independent countries is that they have an appeal which is not possessed by

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representatives of either of the two blocs. The Yugoslavs sympathize with the prevailing views of many leaders in these countries, not only on anti-colonialism, socialization and central planning, but also on independence, neutrality, and freedom from outside interference: this gives them an edge over their counterparts from the Sino-Soviet bloc.

10. In keeping with their non-bloc position, the Yugoslavs are critical of the practices of both blocs. On the one hand, their views on independence, neutrality and freedom from outside interference often frustrate Sino-Soviet bloc designs and objectives in these countries. On the other hand, the Yugoslavs have made it clear that they are against internal industrial development by private capital, and are not in sympathy with liberal democratic practices in these countries, especially when they impede internal "progress." They are pleased when internal development takes a socialist pattern and they encourage it where possible (in most of these countries, it should be said, little encouragement is needed). If they encourage internal socialization, however, their encouragement is along the lines of Yugoslavia's long-cherished position -- that each country should be free to develop without

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outside interference according to its own specific internal conditions, and that no attempt should be made to impose "classical patterns" (by which is meant either Marxist-Leninist or liberal-democratic patterns) of internal development.

11. In general, the Yugoslavs seem to avoid advocating their internal system too actively, lest they place their political and economic objectives in jeopardy. They also avoid contacts with local Communist parties and otherwise try not to give the host country cause for complaint on ideological grounds. However, the Yugoslav version of socialism is of considerable interest to socialist-minded leaders in the developing countries, especially because of the sharp divergencies it has developed from socialism as practiced in the Communist Bloc. The Yugoslav system in recent years has become increasingly characterized by such un-doctrinaire features as the profit motive, the market mechanism, and decentralized decision-making down to the enterprise or local government level, features which are likely to appeal to leaders in the new countries who are seeking pragmatic solutions to their problems and for whom neither Soviet nor Western models of development seem suitable.

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12. Meanwhile, Yugoslav activities in these areas have been causing considerable irritation to the bloc. Tito's trip to the Far East at the end of 1958 was roundly criticized by Moscow, and the Chinese Communists called him a "traitor to socialism" and a "capitalist lackey". In the Middle East, the Yugoslavs in recent years have developed a cold war of their own with the local Communist parties. Tito advised Nasser in 1959, apparently with some effect, that his tactics would be more productive if, instead of attacking Communism in general terms, he would point out that local Communists were agents of Moscow. Polemics between the Yugoslavs and the local Communists have been savage, especially with the Syrian leader, Bakdash, who has accused the Yugoslavs of "destructive" activities and of attempting to undermine the friendship between the USSR and the Arab countries.

13. In Latin America, the Yugoslav program is still in its early stages. Little has been attempted so far except to establish trade relations and diplomatic ties. The exception is Cuba, where relations have developed at a much faster pace. Embassies have been established in both countries, the Foreign Ministers of both

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countries have exchanged visits, and Tito will probably visit Cuba either this year or next. Trade, cultural and technical agreements are in the works. In general, the Yugoslavs have expressed strong sympathy with Castro's cause, to the point that Tito in mid April referred to "reactionary capitalist interference" in Cuba's internal affairs. Nevertheless, there is a note of caution in Yugoslav support for Castro's Cuba, as seen in the pronounced lack of enthusiasm in Belgrade for Castro's proposal for a world conference of underdeveloped countries.

Conclusions

14. While it cannot be said that the Yugoslavs exercise a pro-Western influence in the underdeveloped countries they are cultivating, it probably can be said that their pro-neutralist influence does more damage to Soviet than to Western prospects in these areas. For it is the Communist Bloc and not the West which poses the greatest threat potentially to the national independence so highly cherished in these countries. And it is precisely the Yugoslavs who are best qualified on the basis of their own experience to explain this difference between the two blocs. They can also

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provide an alternative method for achieving rapid industrialization without the danger of succumbing to Soviet control. The Yugoslavs, with their greater appeal and rapport, are often able to establish themselves quickly on close terms with these countries, and especially in those countries which are most sensitive to external influence, to do things that neither bloc is in a position to do.

15. The Yugoslav political and economic program in these areas is itself an indication of the growing strength of the Yugoslav economy and of the fact that the Yugoslavs are laying a sound basis to preserve that strength in the future. Without establishing such markets there would be a danger that Yugoslav industry would stagnate in the future, and if this were allowed to occur, there would probably be serious attendant political effects. The program is not geared to present trade advantage, but to the distant future, with the aim of harnessing Yugoslavia's economic development to future economic expansion in these countries. As it develops a growing vested Yugoslav interest in neutrality, the program is an additional important reason why Yugoslavia's present foreign policies are unlikely to be reversed.

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Postscript on US Policy

16. The foregoing account of the condition of Yugoslavia and the trend of its policies is at the same time a significant commentary on the success of US policy toward Yugoslavia. The decision taken after Yugoslavia's breakaway from Soviet control in 1948 -- to give the country political support and to invest in its economic development -- has earned very important dividends. Putting Yugoslavia's political and economic independence on a sound footing has probably exorcised permanently the danger of a restoration of Soviet control in an area strategically important to the West.

17. The fact that a regime with full title to be called Communist insists, in the name of national autonomy, upon freedom from Moscow's domination and the right to develop programs appropriate to its own conditions has been of great significance in limiting and altering the nature of Soviet control in Eastern Europe. This historic deviation, unique in the Communist movement, continues as an implicit

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challenge to the USSR's hegemony there and its control of Communist parties elsewhere.

18. More recently, the growth of Yugoslavia's influence among neutralist and underdeveloped countries works against Moscow's political influence and diminishes the authority of the Soviet model of economic development. By embodying and propagating a refutation of the Soviet thesis that there are only two world "camps" and that in the "socialist camp" there is only one correct road, that authorized and controlled by Moscow, the Yugoslavs are in fact serving ends sought by US policy. These focus on a world community, pluralist in character, in which nations are free to follow varied forms of development without a threat of imperialist domination from any quarter, including Moscow.



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